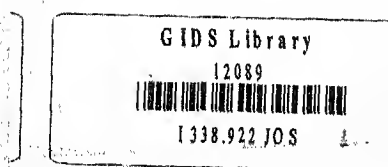


# Subsidising Industrial Development : A Study of the Impact of Incentives to Industries in Uttar Pradesh

(Sponsored by Government of Uttar Pradesh)

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April 1986

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LUCKNOW

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## PREFACE

This study has been sponsored and financially assisted by Government of Uttar Pradesh. We are grateful to the State Government for providing us this opportunity of studying an important aspect of industrialisation in the State which is important not only from the policy viewpoint but also is of great academic interest to us. We hope that the study would be found useful for policy making not only in the State of Uttar Pradesh, but in formulating and assessing the schemes of incentives and subsidies for industrialisation in general. We find that there are ample theoretical and empirical considerations to have a relook at the schemes of incentives and subsidies currently in operation for promoting industrialisation in Uttar Pradesh and elsewhere from the viewpoint of their rationality, effectiveness and limitations; and if the present study succeeds at least in generating some debate on this subject, we would consider our effort well rewarded.

The major burden of organising and executing this study was shared by my colleague Shri Ashutosh Joshi at the Institute who was ably assisted by Shri G S Mehta and Shri D K Bajpai in compilation of data and by the former in tabulation and analysis of data as well. Outside the Institute, we received good cooperation and assistance from the officials of the District Industries Centre and District Economic and Statistics officers in Bareilly, Bulandshahr, Dehradun, Moradabad, Muzaffarnagar and Saharanpur. We are grateful to them for their help.



The initial and final drafts of the report were typed by Shri. P.J.Devasy Kutty and the stenciling for production of the report in the mimeographed form was done by Shri. S.Devanand. I would like to record my appreciation of their assistance in timely and effecient production of the report.

Giri Institute of Development  
Studies, Lucknow.  
April 25, 1986.

T S PAPOLA  
DIRECTOR

## CHAPTER I

### INTRODUCTION

#### PRINCIPLES OF SUBSIDIES AND SCOPE OF THE STUDY

##### I. Rationale of Subsidies

Fiscal and financial incentives and subsidies are provided to industries to offset their cost disadvantage that may arise due to the following reasons. One, a new industry has a high unit cost due to heavy initial investment and low unit revenue due to unestablished market. Two, the size of the units may be relatively small limiting their access to various inputs, on the one hand, and capacity to compete in the market with relatively larger sized units on the other. Three, the location of the industrial unit may be disadvantageous in terms of access and availability of inputs and proximity to the markets as well as undeveloped infrastructure.

The 'infant industry' argument which has traditionally been advanced for protection to indigenous industry against international competition has been used even independent of the foreign trade angle for promotion of industrial development of backward areas within the country in particular. In a newly industrialising economy a new industry is regarded as 'infant' in view of undeveloped markets for the new products, high cost of new technology and relative lack of industrial entrepreneurship. Incentives and subsidies thus compensate to some extent for the high fixed costs due to initial low utilisation of installed capacity, even high current costs due to small size of production resulting from the limited extent of the market and to reduce the risk element in industrial enterprise.

Disadvantages faced by a small size of production may or may not be compensated by fiscal and financial incentives depending on the objective conditions of production and value premises of the policy. It may be argued that to the extent these disadvantages are due to the non-availability of economies of scale in the small scale production, there is no economic argument to protect small scale industry as it would only result in inefficiency and high cost of production; and, the protection would have to be perpetual unlike the protection to infant industry. But to the

extent technology permits efficient production on a small scale, but the overall cost becomes high due to the procurement and marketing costs, there would be a case for subsidisation of small scale production. Besides the objective economic conditions, however, other important policy considerations like employment, industrial dispersal and prevention of concentration could warrant subsidisation of small scale industry even to compensate them for relatively high cost due to their small scale of operations as such. The society has, however, to weigh the relative costs and advantages of the various policy considerations and take a view in the long term perspective of development and equity.

Similar arguments could be advanced in the case of subsidisation of industries located in backward areas. There is no doubt that market mechanism by itself inevitably leads to spatial concentration of industrial activity, as the entrepreneurs naturally tend to flock to areas where they could produce at the lowest cost and/or realise highest revenue. The considerations of industrial dispersal require intervention which could be physical such as licensing, or then in the form of fiscal and financial incentives.

The disadvantages that an industry or an industrial unit faces primarily arise from the lack of either internal or external economies. A new unit takes some time before it can mobilise and effectively use its inputs due both to technological and market reasons, and a small unit is not able to realise economies of scale due to small size of operations. The cost in either case is high due to the reasons internal to the unit. Similarly a unit located in <sup>an</sup> area where its raw material as well as market do not exist would have to incur high cost in transporting inputs and output. These disadvantages are faced by industries even when infrastructure facilities like transport, power, banking etc. are easily available. But in most cases it is the non-availability of some of these items that pose the most serious disadvantage. A new and small unit even though located in an infrastructurally well served area may not have easy access to certain utilities and inputs due to lack of resourcefulness, and the units located in an infrastructurally backward area would of course be at a greater disadvantage.

It would thus appear that creation of conditions where external economies of infrastructure and inter-industry linkages are adequately available and easily accessible

to industrial units would be the surest way to accelerate industrialisation of backward areas. But the disadvantages arising out of high internal costs of production in the case of infant and small units and transport cost of inputs and product in case of the units located in backward areas would need to be offset by fiscal and financial incentives in the interest of development of industries in general and in backward areas, in particular.

Incentives and subsidies for industrial development in India have generally flowed from the policy objectives of acceleration of industrial growth, promotion of small scale industry and spatial dispersal of industries besides, of course, export promotion. Accordingly, fiscal incentives like tax concessions, reliefs and rebates, and financial incentives like capital subsidy and concessional rates of interest have been allowed to new and small units and to units located in backward areas. But in the context of a policy on incentives and subsidies for industrial development in an industrially backward state like Uttar Pradesh, the question of locational disadvantages and therefore, incentives and subsidies to mitigate them, becomes more important. That is why there has been a general emphasis on "attracting" industries into the state in most of the incentives. It may therefore, be



worthwhile to deal with the question of industrial location and its determinants, and role that incentives can play in this process in some detail.

## II. CHANGING CONSIDERATIONS IN INDUSTRIAL LOCATION

The problem of industrial location and spatial dispersal were analysed under a rather simple framework in the traditional theories. The availability of raw material and nearness to the market were the primary factors affecting location and spatial distribution of industries. Early industrialisation primarily consisted of industries which were natural resource based and those which manufactured consumer products. Under such a situation optimum location was determined by striking a balance between location of raw materials and the markets. Technically, weight-distance characteristics of materials and output decided the location of an industry. Those activities using weight losing materials thus got located at the source of raw material while those that require weight gaining material and careful and costly transport of the finished product were located nearer the market.

However, certain basic structural changes have taken place in manufacturing activities especially over the last few decades and today it is rather difficult to classify units in terms of locational characteristics under the simple dichotomous scheme and analyse them in the traditional fashion. To begin with, a majority of modern industries are neither predominantly natural resource nor raw material based. Added to it is the fact that the production process itself has undergone a radical change where semi-processed or intermediate products are being used by units as their key inputs instead of nature based raw materials. Thus we find a number of goods being produced not for the ultimate consumer but for those manufacturers for whom they are the key inputs. Besides the supply of raw materials and market, factors such as infrastructure facilities, cheap labour and the easy availability of finance have become equally important as a result of changes in technology, organisation and size of the production units. Above all, even the marketing system has undergone significant changes with the introduction of large scale production such that the availability of marketing arrangements and networks have become more significant than the location of the market itself. To sum up, therefore, marketing arrangements, the availability of transport facilities, finance, and industrial agglomeration to



produce and sell intermediate products have emerged as more significant factors in location than the local availability of raw material and location of market.

The above brief overview of the pattern of industrial location has two important implications for the role and limitations of incentives and subsidies in influencing location. One, changes in the structure and processes of industrial production have widened the areas of feasible and economic location of industries beyond the points of raw material and the market, and, therefore, it is possible to develop a spatially more dispersed pattern of industries with the use of suitable instruments of infrastructure development and fiscal and financial incentives. Two, these changes have, at the same time, increased the importance of external economies of infrastructure and agglomeration, the absence of which may not easily be compensated by fiscal and financial incentives. The role of such incentives could therefore, at best be of only marginal significance.

At the inception of planning in India wide ranging disparities in the levels of industrial development were evident at the inter-regional levels. Attention was, therefore, given to this problem in our plans. Although the first plan

was primarily concerned with the expansion of the existing units, the dispersal of industrial activity was given due weightage in the Second Plan which laid down the location of new units in different regions as well as the development of infrastructure facilities among its main objectives. The Third Plan put forward the concept of large units to serve as the nuclei for regional growth. However, the results achieved during these three plans were not very satisfactory. The Fourth Plan, therefore, witnessed the introduction of various schemes of incentives and concessions based on the recommendation of the Pande and Wanchoo Working Groups. The government and some financial institutions also began undertaking regional studies in order to identify specific programmes for investment in the backward areas. The Fifth Plan laid emphasis on the identification of industries suited to the needs and potentials of the backward areas through techno-economic surveys and feasibility studies. This plan also gave importance to infrastructure development, integrated planning of selected backward areas and for providing financial and other assistance to entrepreneurs setting up units in the backward areas. The Sixth Plan witnessed a change in emphasis from the development of large scale to small scale projects in industrial dispersal programmes.

Since it was realised that a large capital intensive project need not necessarily play the role of a growth catalyst in a backward area as had been envisaged. The spread effects of the large scale units had not been found sufficient to influence industrial activity around them to the desired level.

The central and state governments have, over a period of time, evolved various schemes of subsidies and incentives with a view to giving industrial activity some impetus and to help diversification of industries in favour of the backward areas. Some of the important subsidies and incentives currently being offered by the central and state governments are given below :

### III. INCENTIVES PROVIDED BY THE CENTRAL AND STATE GOVERNMENTS

1) Central Investment Subsidy : The union government has classified certain districts from various states as backward based on their levels of industrial activity. These backward districts are further divided into three categories. Thus there are 131 districts of category 'A', 55 districts of category 'B' and 113 districts in category

'C' at the all India level. Of these Uttar Pradesh has 15, 6 and 21 districts respectively in the three categories mentioned above.

A Central Investment Subsidy of 25 per cent upto a maximum of Rs.25 lakhs, 15 per cent upto a maximum of Rs.15 lakhs and of 10 per cent upto a maximum of Rs.10 lakhs is admissible in category 'A', 'B' and 'C' districts.

ii) Central Transport Subsidy : Upto 75 per cent of the cost of transportation of raw materials and finished products from location to the nearest rail head is reimbursed to units located in selected remote and inaccessible areas. All the eight hill districts of Uttar Pradesh qualify for this particular subsidy.

iii) State Capital Subsidy : This is granted in some selected blocks and tehsils in districts, Gorakhpur, Ghaziabad and Saharanpur to the Small, Tiny and Village industries at the rate of 10 per cent, 15 per cent and 20 per cent respectively.

(iv) Interest free sales tax loan equal to sales tax paid upto Rs.40 lakhs in three years in the case of non-backward districts and Rs.50 lakhs paid in 5 years in

the case of the backward districts is refundable to units set up before 30-9-1982.

v) Exemption from Octroi : All new units are granted exemption from octroi on machines and building material for a period of five years.

vi) Generating Set Subsidy : This is admissible at the rate of Rs.500 to large and medium units and Rs.1000 to small scale units per KVA to the extent of 120 per cent of the connected load.

vii) State Capital Subsidy for Export : Some selected industries which are 100 per cent export oriented are given a 10 per cent capital subsidy by the government.

viii) Concessions related to Power : (a) All new units are exempted from power cuts for a period of five years; (b) no minimum consumption guarantee is charged from new units taking connection after 1-8-1980 for a period of one year; (c) a development rebate of 33.33 per cent on the amount of bill is given for loads upto 75 KW and also for heavy loads in the case of only hill districts to all

new connections after 1-8-1980; (d) all new large and medium scale industries are allowed to pay only 50 per cent of the security deposit at the time of agreement while the balance is to be paid in four annual instalments; and (é) a power subsidy is available to 22 categories of SSI units upto 20 HP load at the rate of 9 paise per unit.

ix) Exemption from Sales Tax : This is admissible without any ceiling to all units set up between 01-10-1982 and 31-03-1985 for periods ranging between 5 to 7 years depending on the category of the districts. Thus, 11 districts enjoy this facility for 7 years while 30 districts for 6 years. Units in the remaining districts get exemption for a five year period.

Over and above these incentives there are also some schemes which are being offered to either pioneer and prestige industries or to the small and tiny industries being set up in Uttar Pradesh. Moreover, non-resident Indians are also being granted some facilities for setting up industrial projects in the state.

However, it should be very clear that the schemes of subsidies and incentives are not confined to the state of Uttar



Pradesh alone. In fact all the states are running their own schemes of incentives in order to lure entrepreneurs and to attract industrial activity. We, therefore, find the interest free sales tax loan under implementation in Punjab, Haryana, Himachal Pradesh, J & K, Rajasthan, Tamil Nadu and West Bengal, besides Uttar Pradesh. Similarly octroi exemption is also available in Maharashtra and Gujarat. Some is the case with respect to exemption from sales tax, generating set subsidy and the concessions related to power tariff. In a situation where most of the state governments are making various schemes of subsidies and incentives available it really becomes doubtful if any one particular state can be truly effective in attracting entrepreneurs from the other states. As has already been pointed out earlier, decisions regarding location of manufacturing activity are no longer governed by the traditional factors such as availability of raw material or the weight-loss or weight-gain criteria. The emergence of a whole set of foot-loose industries, the availability of marketing arrangements and networks, the proximity to the market and the entire chain of forward and backward linkages have added a completely new dimension in industrial location.

#### IV. STATE INSTITUTIONS FOR SUBSIDY

Some of the major state government institutions which have been established primarily to promote industrial activity in the state are:

i) Directorate of Industries is responsible for the overall industrial development. The District Industries Centres have been set up at the district level and they have been assigned various responsibilities like promotion of small and village industries so as to increase employment opportunities, to apprise the entrepreneurs about the projects they can undertake and the types of assistance that can be availed by them. Some of the subsidies and incentives of the state government are made available to the industrial units through the office of the General Manager, District Industries Centre.

ii) Pradeshia Industrial and Investment Corporation of Uttar Pradesh (PICUP) was established in 1972 with the objectives to offer administrative, financial and technical assistance to the large and medium scale industries. It provides assistance to new entrepreneurs in the identification of units and prepares feasibility reports and helps



overcome the various problems faced by the entrepreneurs. Some of the incentives made available through the PICUP are term loan, equity participation, underwriting of shares, bridging loan and the provision of IDBI's Seed Capital Scheme. The Central Investment Subsidies, the sales tax refund loan and feasibility report subsidy are some of the other incentives administered by the PICUP.

iii) The Uttar Pradesh Financial Corporation (UPFC) with its head office in Kanpur grants term loans upto Rs.30 lakhs in case of companies and Rs.15 lakhs for proprietorship and partnership firms. It also grants foreign exchange loans to industrial units for import of plant and machinery from member countries of the World Bank. The UPFC also operates the generating set subsidy.

iv) The Uttar Pradesh State Industrial Development Corporation (UPSIDC) with its head office at Kanpur arranges for the necessary infrastructure particularly developed sites, equity participation, underwriting of shares, sanction of bridging loans and also implements projects in joint and assisted sectors.

v) Uttar Pradesh Small Industries Corporation (UPSIC) which also has its headquarters at Kanpur arranges for the raw material requirements of small scale industries. It also renders marketing assistance and hire purchase facilities for the procurement of equipment.

#### V. PRESENT STUDY

Since these schemes of incentives had been in operation for some time it was thought desirable to examine their impact on the development and growth of industries. Our study, therefore, had the following objectives :

- i) To find out the extent to which these incentives have proved to be an important factor in the establishment and growth of a unit.
- ii) The extent to which they offset the disadvantages that the 'infant' nature and 'backward area location' imply for a unit.
- iii) To assess the relative contribution, on the margin, of improvement in infrastructure including better transport and communication, availability and supply of power, size of industrial agglomeration, etc., on the one hand, and fiscal and financial concessions on the other.

- iv) To find out how effective is the system of delivery of concessions and subsidies in ensuring timely disbursal, purposeful utilisation and access by the units in actual need and with growth potential, and,
  - v) To find out whether the schemes require any modification and rationalisation to ensure a more purposeful and effective utilisation of the actual and potential public funds that are being spent on them so as to maximise the achievement of the objective of industrial development.
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More specifically the study was designed to estimate the extent of coverage, magnitude of subsidy, the extent to which they reduce cost and provide absolute and comparative advantage to the units; to examine the nature and structure of the incentives and their appropriateness in relation to the problems of industrial units, and; the procedure and organisational set up to provide the concessions.

It was originally decided to base the study on primary as well as secondary data. However, our efforts to obtain the required secondary level information on a comprehensive basis proved futile and as a result the study is mainly based on the analysis of the primary data which was obtained from a sample of units through structured questionnaires.

## CHAPTER II

### CHARACTERISTICS OF INDUSTRIAL UNITS AND AVAILMENT OF INCENTIVES

For the purposes of collection of data for the present study we set out the following criteria for selection of units. First, we decided to cover units which have been established during 1975-82. This period was chosen because most of the incentives started operations in mid-seventies and because systematic records of new units were available only upto 1982 from the official agencies. Second, since it was not possible to spread the survey all over the State, the study had to be confined to a few districts only; and, since it was

necessary to have a minimum number of sample units in each of the selected districts, only such districts could be selected which have sizeable number of new industrial units established during this period. We decided to have a minimum of 25 units in the sample in each of the selected districts and even with as high a sample as 50 per cent, it was necessary that at least 50 units were started during the period in the districts to be selected. On this criterion the districts that got selected, viz., Bareilly, Bulandshahr, Moradabad, Muzaffarnagar and Saharanpur all were from the Western region except for Dehra Dun. Of these Dehradun, Moradabad and Bulandshahr were in the category of backward districts while the remaining three were non-backward districts.

#### I. SOME CHARACTERISTICS OF UNITS AND ENTREPRENEURS

The total number of units covered in the sample were 213, distributed among the six districts as follows: Bareilly 30, Bulandshahr 25, Dehradun 25, Moradabad 48, Muzaffarnagar 38 and Saharanpur 47. A description of some of the characteristics of these units may be in order here :

i) About 72 per cent of the sample units were started by their present entrepreneurs, another 19 per cent were purchased from other entrepreneurs and 9 per cent were inherited from the earlier generation. The proportion of units started by the present entrepreneurs was much higher in Dehradun, Muzaffarnagar and Saharanpur and that of 'purchased' units in Bulandshahr. Inherited units made a much larger than average percentage (21%) in Moradabad. (Table 1).

ii) Entrepreneurs were more or less evenly distributed in different age groups, the average age being 42 years. Among districts there was no significant difference in the average age of the entrepreneurs, the lowest being 38 years in Bulandshahr and the highest about 45 in Muzaffarnagar. Yet older entrepreneurs, above the age of 45 made the majority (56%) in Moradabad, while in the total sample the proportion of such entrepreneurs was 41 per cent. In Bulandshahr, Saharanpur and Bareilly younger entrepreneurs, below the age of 35 made a high proportion, 40, 38, 37 per cent respectively as against the overall proportion of 27 per cent of such entrepreneurs in all the districts together (Table 1.).



iii) Majority (54%) of the entrepreneurs had education upto or beyond the degree level, and 5 per cent were educated in technical fields. Only 2 out of the 213 entrepreneurs were illiterate. About one-third were educated between high school and a university degree. The proportion of graduate entrepreneurs was the highest in Saharapur (60%) followed by Bareilly (57%) and the lowest (36%) in Dehradun.

iv) About 62 per cent of the entrepreneurs had no previous job experience of any kind. Of those who had earlier experience, 71 per cent were running another enterprise before taking up the present one, 44 per cent of them in the similar line of business as at present and 56 per cent in different lines of business. 38 per cent of the experienced were working in wage and salaried jobs before taking up the present enterprise. The experienced ones were in previous occupation for an average of 10 years (Table 1).

v) Most of the sample units were small sized with an average value of production at Rs.25 lakhs, with average fixed capital of Rs.5.29 lakhs and average employment of 31 persons in 1984 (Tables 2, 3 & 5).

vi) In terms of product groups, sugar/khandsari units made the largest group in the sample constituting about 27 per cent followed by engineering units and rice mills with 9 per cent each. Other product groups with significant number (5% or above) in the sample were : electrical/electronic engineering, rubber and rubber products, and brassware (Table 6).

## II. AVAILMENT OF INCENTIVES

(a) Extent of Availment : Only 43 i.e., 20 per cent of the units in the sample were found to have availed any incentives. Total frequencies of availment of incentives were also only 50, which means that a maximum number of 7 units availed of more than one incentive. Incidentally, 2 units were found to have availed the Central Subsidy and in the rest of the cases the subsidies availed were those provided by the state government. The largest number of cases (50%) related to the generating set subsidy which was availed by 12 per cent of the sample units; the next place was taken by the State Capital Subsidy and the Interest free Sales Tax Loan. Exemption from sales tax was the next important subsidy (Table 7). It may, however, be pointed out here that



this incentive may have been availed by more units, as it started late in 1982 and our study did not cover units established after 1982.

In terms of districts, it was found that Moradabad had the highest proportion of units, 44 per cent, availing the incentives, followed by Muzaffarnagar (32%). In Bulandshahr, Dehradun and Saharanpur only 16, 8 and 9 per cent units respectively, availed of any incentive. And in Bareilly none of the 30 units was found to have availed any incentive.

Average amount of subsidy per unit among those having availed, it turned out to be Rs.1.30 lakhs, the highest being in Moradabad at 1.53 lakhs, followed by those in Muzaffarnagar at Rs.1.48 lakhs and Saharanpur at Rs.1.23 lakhs. Average subsidy per beneficiary unit was only Rs.9000 in Dehradun and Rs.21,500 in Bulandshahr. It seems that a few cases of capital subsidy, central and state has raised the average in the case of Moradabad, Muzaffarnagar and Saharanpur.

(b) Availment by Size : Most units (52%) had production valued at over Rs.10 lakhs in 1984. But among those who availed incentives, the proportion of such

relatively larger units was still higher. Of these units 81 per cent had availed some incentives or the other, while the corresponding percentages were 7.5 among those with production worth less than Rs.3 lakhs and 5 per cent among those with production worth between Rs.3 lakhs and Rs.10 lakhs. The average value of production of units availing any subsidy was Rs.54 lakhs as against Rs.18 lakhs of those not availing any subsidy (Table 2).

Similar pattern is observed if one takes fixed capital as the indicator of the size of units. Those availing of incentives had an average fixed capital of Rs.7.85 lakhs against Rs.4.69 lakhs of those without incentives or subsidy. Of those with a fixed capital of over Rs.2 lakhs, 27 per cent took the benefit of some incentives, while of those with small fixed capital, of upto Rs.2 lakhs, around 9 per cent availed of any incentive (Table 3).

In terms of employment also, the larger units have had better access to incentives than the smaller ones. Average employment of units with subsidy was 53 persons while of those without subsidy it was 23. Of those employing 100 workers or more 33 per cent availed subsidies, and among those employing less than 10 workers 14 per cent got some incentive. The relationship between employment size and

availment of subsidy was not very consistent, though, as of those employing 15 to 49 workers 26 per cent availed, while only 10 per cent of those employing 50 to 99 workers got any subsidy or incentive (Table 5). Thus incentives were, by and large, availed more often by relatively larger sized units than the smaller ones, whether one measures size by output, fixed capital or employment.

(c) Availment by Product Groups : While in terms of numbers, sugar/khandsari units made the largest group, availing incentives, in terms of proportions, units in paper and paper products, electroplating, chemicals, coal briquettes, and cold drink manufacture were the largest beneficiaries; at least 50 per cent of the units in each group having benefited through incentives. Brassware units, and crockery units were other groups with substantial proportion (33% to 50%) of units availing subsidies. While generating set subsidy was the most popular incentive in most groups, engineering and khandsari units availed of state capital subsidy, to a significant extent. Average value of subsidy turned out to be highest (Rs.4.36 lakhs) per unit in case of brassware units, primarily because a good proportion of them had availed the central capital subsidy.

Rubber and rubber product units also had a high per unit subsidy of Rs.1.94 lakhs, though they availed of only one incentive i.e., interest free sales tax loan. The other groups with a per unit subsidy of over Rs.1 lakh were; cold drink units; chemicals and paper and paper products.

(Table 6)

### III. TYPES OF INCENTIVES AVAILABLE

When we look at the availment of different incentives, we observe that the most popular incentive, by way of largest number of frequencies, was the generating set subsidy. As many as 26 out of the 43 units availing any incentive had figured among this category making around 50.5 per cent of the units having availed any incentive. In all the five districts where we found units availing incentives this subsidy has figured. Bareilly, as already stated earlier, was the sole exception where our sample did not have any case of availment. In other districts a significant majority of the units having availed of any subsidy, got generating set subsidy. Thus we find that two out of the four such units in Bulandshahr, both the units of Dehradun and 15 out of the 21 units of Moradabad availing this incentive from among the classified backward

districts. From the two non-backward districts of Muzaffarnagar and Saharanpur we had 4 and 3 units respectively out of a total of 12 and 4 units which took the generating set subsidy. State Capital Subsidy and interest free sales tax loan were the next in importance and seven units each, in the sample, availed of these two incentives. The State Capital Subsidy was concentrated in Moradabad as it had six out of the seven availing units having benefited by this subsidy. Muzaffarnagar was the district with a high availment of the interest free sales tax loan covering five units. Four units availed of exemption from sales tax and these were equally divided between Moradabad and Muzaffarnagar. Only one unit, in Bulandshahr, took the subsidy for the preparation of feasibility report. While two units of Muzaffarnagar and one from Bulandshahr took subsidy for the purchase of machinery. Besides these incentives two units of Moradabad also availed of Central Government incentives (Table 7).

Looking at incentive-wise availment according to product groups, the generating set subsidy was availed in as many as nine different product groups headed by the sugar industry in which 11 out of the 14 units were found having taken a subsidy for the purchase of a generator (Table 6). The next important product group was the paper and paper products group where four units

had taken this subsidy. The state capital subsidy was concentrated in only two product groups namely sugar which had five units and the engineering products group where two units availed the subsidy. Units in four product groups namely cold drinks manufacturers, chemical products, engineering products and rubber products were availing the interest free sales tax loan. Each product group had two units except for chemicals which had only one unit, availing this incentive.

There were four units availing the sales tax exemption, one each belonging to brassware, electroplating, chemicals and the engineering products groups. The lone unit taking feasibility report subsidy was making coal brickettes and subsidy related to the purchase of machinery was availed by units in crockery, chemicals and engineering products groups. The Central Capital Subsidy was availed by the brassware units of Moradabad.

Availment of subsidy was also analysed according to the size of fixed capital and it was observed that of the two units having a fixed capital of below Rs.0.50 lakhs and having availed of any incentive, one had availed the



State Capital Subsidy while the other had taken exemption from sales tax. The size group ranging from Rs.0.50 to 1 lakh had ~~four~~ units with subsidy. Of these two availed of the generating set subsidy and one each took exemption from sales tax and the subsidy for the purchase of machinery. The next size groups with the fixed capital range of Rs.1-2 lakhs had two units availing incentives, of which one had taken the State Capital Subsidy while the second had availed of the subsidy for the preparation of feasibility report (Table 4).

There were as many as 11 units with fixed capital between Rs.2-5 lakhs having availed a subsidy. A heavy concentration was found of the generating set subsidy in this group which was availed of by seven units. The sales tax exemption and the interest free sales tax loan was taken by two and one unit respectively. In the size group of Rs.5-7 lakhs there were six units with any incentive and they were found availing the generating set subsidy and the interest free sales tax loan in equal proportions. One unit had also availed of the State Capital Subsidy. Our largest capital size group of Rs.7 lakhs and above also had the largest number, 17 units, availing any incentive.

Of these, as many as 14 had taken the generating set subsidy while three units had taken State Capital Subsidy. The other incentives to figure in this group are interest free sales tax loan (2 units) and the central subsidy (one unit).

The fixed capital size group of Rs.2-5 lakhs had the highest average value of subsidy of Rs.1.90 lakhs. In the size groups of over Rs.7 lakhs and the Rs.5-7 lakhs, average subsidy per unit worked out to Rs.1.53 and Rs.1.16 lakhs respectively. In the small size groups the average value of subsidy was much lower.

Among institutions granting subsidies and incentives, UPFC and Directorate of Industries through DICs emerge as important agencies in our sample. The generating set subsidy has, by and large, been provided by the UPFC (18 units) while the remaining 8 units are assisted by the concerned DIC's. The State Capital Subsidy is primarily handled by DICs: 5 out of the seven cases of this subsidy was provided through the DICs. The sales tax exemption facility is



given by the sales tax department. All the seven cases of the interest free sales tax loan were handled through PICUP. The lone case of the feasibility report subsidy was handled by the DIC.

#### IV. CONCLUSION

The above description of the availment of incentives by industrial units may now be recapitulated in a few broad conclusions :

- i) Only a small proportion, i.e., one out of five units have availed any kind of subsidy offered by the government. The average amount of direct subsidy per unit amounts to about Rs.1.30 lakhs.
- ii) Of the very small units with an annual output of less than Rs.10 lakhs the proportion of those availing any incentive is very small whereas among those larger than this size four-fifths were able to obtain some subsidy or the other. The incentive schemes thus seem to be particularly biased in favour of the relatively larger units.

- iii) There are significant differences in the degree of availment in different product group of industries. Paper, electroplating, chemical, coal bricquettes and cold drink units have over 50 per cent of units availing incentives. Brassware and crockery units have also a large extent of availment of incentives.
- iv) Generating set subsidy is found to be the most popular incentive, followed by the State Capital Subsidy. Incentives relating to the sales tax, interest free loan or exemption were the third most popular incentive. Generating set subsidy, though popular among all the product groups and locations was found to be most frequently availed of by khandsari units. State Capital Subsidy seems more popular among the brassware units in Moradabad.
- v) Among institutions providing subsidies, UPFC and DICs were found predominant. But it was observed that not only there are several different agencies for administering incentives, at time the same incentive is also administered by different agencies.

We intended to verify the broad features of our findings about the extent and types of subsidies availed by units in our sample, on the basis of figures available from the official records. We wanted to at least check the veracity of our figures of the percentage of units having availed the incentives, as it seemed to be rather low. Our efforts to get information from one or the several agencies on the total number of units having availed incentives of various kinds over the period 1975-1982, proved futile as not only that no single agency has such information, even the agencies administering any incentive do not have compiled figures for that particular incentive. In the circumstances, we had no way of checking the validity of our findings. We, however, do not see any particular reasons for their being very much at variance with reality.

## CHAPTER III

### IMPACT OF INCENTIVES AND SUBSIDIES

The impact of incentives and subsidies could be seen both in terms of the immediate benefit that beneficiary units get and the ultimate result they have in terms of expansion in capacity, output and employment. We have, therefore, attempted in this chapter first a measure of the contribution of the subsidies to the capital resources of the units, and then a comparative analysis of the growth of the beneficiary units and those not having availed any incentives. The former exercise is attempted by aggregating the assessed value of incentives and examining what proportion of the capital it accounts for. The latter

aspect is examined in terms of the growth of subsidised units in capital, output and employment vis-a-vis the non-subsidised units. The analysis has been limited to a smaller number of units than are found in the sample as having availed the subsidies for two reasons. One, some units availed incentives, such as sales tax refund loan or sales tax exemption, the value of which was difficult to ascertain and two, some units could not supply the requisite information on all the required aspects.

I. CONTRIBUTION TO CAPITAL RESOURCES

Since most of the subsidies and incentives are in the nature of capital cost we have in the first instance tried to see the extent to which the capital cost of the units have been met through them. For this we have looked at the fixed capital as well as the total productive capital structure of the units in 1980 and 1984. Analysis has been done after splitting the sample units into two groups viz., those availing incentives and those not availing any incentives.

Fixed capital has been divided into three size groups for convenience. The first group consists of 20 units which have a fixed capital size of less than Rs.5 lakhs. The second group has a fixed capital size ranging between Rs.5 and 10 lakhs while the third group has a fixed capital size of above Rs.10 lakhs. Both these two size groups have eight units each (Table 8).

The average value of fixed capital in the lowest size group works out to approximately Rs.2.30 lakhs per unit while the per unit availment of subsidy is as high as Rs.1.15 lakhs which means that 50 per cent of the capital cost is covered through the various subsidies. The second group of units are those having a fixed capital size between Rs.5 to 10 lakhs. The average value of fixed capital per unit in their case is Rs.7.22 lakhs and the per unit availment is higher in absolute terms as compared to the units in the lowest capital size group yet, when we look at subsidy as a percentage of fixed capital the percentage is much lower at 22.38 per cent as compared to the lowest group. The third category are the relatively larger size units in terms of fixed capital where per unit average value of fixed capital is to the



tune of Rs.18.47 lakhs per unit. However average evaluation is low at Rs.1.34 lakh unit, i.e. 7 per cent of the fixed capital.

Taking all the 36 units together we have an average fixed capital per unit of Rs.6.98 lakhs while average value of subsidy is Rs.1.30 lakhs per unit which means that on an average 18.55 per cent of the fixed capital cost is met through the various subsidies and incentives.

When we look at the average value of fixed capital per unit in 1980 and 1984 it is found that the units taking some subsidy or the other (43 units) had a per unit fixed capital of around Rs.5.76 lakhs in 1980. This value had gone upto Rs.7.85 lakhs in 1984 which means that the value of fixed capital had registered an overall increase of 38.28 per cent. The units which had not availed any subsidy or incentive showed an increase of 27.77 per cent in the average value of their fixed capital and the overall increase of all the units taken together worked out to 28.04 per cent (Table 3).

In the case of total productive capital we have formed four size groups. The lowest being that below Rs.5 lakhs and the second between Rs.5 to 10 lakhs. The third size group ranges between Rs.10 to 15 lakhs while the fourth group consists of units where the size of productive capital exceeds Rs.15 lakhs (Table 9).

The lowest size group of productive capital has 9 units and the per unit average value of productive capital works out to Rs.3.23 lakhs. Average amount of subsidy availed per unit in their case is Rs.2.02 lakhs. Thus subsidy as a percentage of the total productive capital is as high as 62.61 per cent. However, subsidy as a percentage of total productive capital constitutes only a negligible proportion in the remaining size groups of productive capital.

In the second size group the share is around 8.80 per cent. Here the average value of productive capital is found to be Rs.9.37 lakhs per unit while per unit subsidy is Rs.0.82 lakhs. In the next higher size group average value of productive capital and subsidy availed per unit is Rs.11.81 and Rs.0.25 lakhs respectively. Thus share of subsidy in total productive capital is a meagre 2.13 per cent.

In largest size group average value of productive capital is very high to the tune of Rs.50.17 lakhs per unit. The value of subsidy however, is only Rs.1.25 lakhs which constitutes barely 2.49 per cent of the productive capital.

When we take the entire group of these units which have availed some incentive we find that subsidy which works out to Rs.1.30 lakhs per unit is around 4.29 per cent of the total productive capital. We, therefore, find that while the state government subsidies are accounting for around one-fifths of the fixed capital they account for less than five per cent when it comes to total productive capital.

In 1980 the average value of productive capital among units availing incentives (43 units) was around Rs.20.87 lakhs per units. This went upto Rs.33.57 lakhs by 1984 showing an overall increase of around 60.88 per cent (Table 10). In the case of the units not taking any incentive the increase in productive capital, from around Rs.13.44 lakhs to Rs.17.01 lakhs between the two points of time, of 26.57 per cent is less than half what it was in the case of units that had availed some incentive.

Taking all the units together it is seen that in 1980 the average value of productive capital was Rs.15.09 lakhs whereas in the year 1984 its value had gone up by 34.77 per cent to Rs.20.34 lakhs. The performance of units availing subsidy or incentive is once again found to be much better as compared to the category of units which did not take any subsidy or incentive.

## II. IMPACT ON OUTPUT AND EMPLOYMENT

We shall now try to size up the situation on the basis of the growth of output and employment between the two categories of units classified on the basis of availment and non-availment of incentives. To begin with, let us consider the changes in the levels of production. The average value of production in 1980 was Rs.22.86 lakhs and Rs.13.89 lakhs respectively in case of units which had and which had not availed any incentive. The next year in question is 1984, and the value of production was deflated with the help of the general price index in order that we obtain changes in the real level of production. The value of production in 1984, after adjustments, was Rs.37.08 lakhs in case of units that had availed some

incentive and so the growth of production works out to 62.2 per cent (Table 2). However, in the case of units that did not take any incentive the ~~unadjusted~~ average value of production in 1984 was Rs.17.89 lakhs per unit but when we make adjustments for the price rise the figure we are left with is Rs.12.31 lakhs per unit which is smaller than that obtained in 1980 which means that the value of production actually went down in real terms by around 11.40 per cent. Thus the units which had availed some subsidy or incentive have shown a much better performance as seen in the changes in the levels of production between the two points of time. Taking all units together we have a marginal growth only of 8.33 per cent. The figure of growth of production was primarily low since a high proportion of units registered negative growth in the real value of their production.

We have also tried to analyse the trends in the growth of employment of these units. Looking at those units which had availed some subsidy or incentive it is observed that slightly over half (52.78 per cent) units had an employment size of below 25 workers in 1980. The other size groups comprising of 25 to 50 and above 50 workers had 22.22 and 25 per cent units respectively (Table 5). The average size

of employment among this category of units was around 52 workers. By 1984 the percentage of units having an employment size of less than 25 workers was reduced to around 39 per cent. The other two groups had around 39 per cent and 29.25 per cent units respectively. We, therefore, observe the trend where units are found shifting from a lower to the higher level of employment. The data pertaining to production, fixed capital and productive capital have already indicated an increasing trend and so it is only natural that to sustain a higher level of production employment size also is increased. The average employment per unit in 1984 was around 63 workers which means that employment growth had taken place at around 33.45 per cent. This is approximately the same rate at which the growth in fixed capital had taken place.

In the case of units not availing subsidies or incentives the lowest size group of employment accounted for around 58.46 per cent of the units. The other two groups had 23.85 per cent and 17.69 per cent units respectively and the average size of employment per unit was around 33 workers which was considerably less than the average employment among units which had availed some incentive. By



1984 even in this group the percentage of units having an employment size of below 25 workers went down to around 52 per cent while the percentage in the highest group went up to around 26 per cent, yet the number of persons employed registered an absolute decline from 4308 persons in 1980 to 3849 in 1984 giving a negative growth of around 10.66 per cent in employment. Average employment per unit was only 23 in 1984. We had seen earlier that these unit had also experienced a negative growth in the value of production as well, when seen in real terms, of around 11.44 per cent and that as compared to units availing subsidies and incentives their performance was poor.

### III. CONCLUSION

It may, therefore, be said that the promotional measures initiated by the government have been useful to a certain extent in encouraging the growth of industrial activity in the state. Moreover, by virtue of the assistance provided under the various schemes of subsidies and incentives the units availing these schemes have also performed better as can be judged in terms of growth in their production; employment generating capacity; and values of fixed and productive capital.

The amount of subsidy provided was not a high percentage of the actual size of the fixed capital and turned out to be a small percentage with respect to the total productive capital in totality. However, what emerges as significant is that the help is substantial in the case of the smaller sized units whether we see the help with respect to their fixed capital or their productive capital. It is the smaller units which need greater encouragement particularly in the backward districts. The relatively better performance of these units also goes to suggest that these subsidies and incentives have achieved some degree of success in mitigating the disadvantage that any new unit faces due to initial trouble with respect to availability of finance, land and constructed sheds and raw materials or the disadvantages of unfavourable location in a remote and backward district. We shall now try to analyse the advantages of these schemes and also the problems and difficulties faced by the entrepreneurs during the course of their efforts at availment, based on the assessment of the entrepreneurs themselves.

## CHAPTER IV

### ENTREPRENEURS' ASSESSMENT OF THE VARIOUS INCENTIVES OFFERED BY THE STATE GOVERNMENT

In order to assess the schemes of subsidies and incentives launched by the state government for the promotion of industrial activity in the state we incorporated a separate section within the structured questionnaire to obtain information from the entrepreneurs as to how far the various schemes had been useful to them particularly by way of reducing costs; in making decisions regarding choice of the product as well as in location of the unit. We also asked them to express their views with respect to the various problems which they faced while availing these incentives and to offer suggestions that could prove helpful in making these schemes more effective.

I. NATURE OF BENEFIT FROM INCENTIVES

In the first instance, therefore, we asked the entrepreneurs to give their views regarding the various ways in which they felt that these schemes had been of a direct help to their units and whether or not they would have established their unit even in the absence of these schemes. Around 38 per cent of the entrepreneurs who had availed some incentive or subsidy felt that these schemes had been beneficial since they had made liquidity available, directly or indirectly at at low or no cost. Another 28 per cent felt that these subsidies and incentives had been helpful in bringing about a reduction in their fixed cost of production. About five per cent felt that the scheme of exemption from sales tax enabled them to sell at a competitive price in the market; another 12 per cent considered the schemes as helpful in earning a reasonable profit margin. About 16 per cent, mostly those availing generating set subsidy, felt that the incentive has been helpful in ensuring availability of crucial inputs. However, nearly 34 per cent of the entrepreneurs could not offer a positive response as they felt it was difficult to assess the extent to and the way in which these schemes had been useful, although they felt that the schemes were useful.

Despite this non-response 50 per cent units clearly indicated that the help through whichever incentive was useful in making free funds available at the time of their initial need.

Though a significant percentage, constituting over four-fifths of the entrepreneurs availing incentives, felt that the various schemes had been directly beneficial to them and so they are desirable, as many as 87 per cent of them held the view that they would have in any case gone ahead with the establishment of their units even in the absence of these subsidies and incentives.

## 12 II. CHOICE OF PRODUCT

Looking at the entrepreneur's assessment regarding the role of various factors affecting the choice of a particular product group we have a situation of multiple responses since most entrepreneurs have listed more than one factor as being responsible in affecting his choice. These factors can be grouped into three broad categories (Table 11).

- i) Condition of the market by way of availability of raw material, the demand for the product and availability of easy finance;
- ii) The availability of infrastructure facilities like industrial estates, transport and communication and power; and
- iii) The state government or central government schemes of subsidy and incentives.

The assessment was made separately for units availing of the various subsidies or incentives and those not availing them. Over half the entrepreneurs who had availed one or more subsidy held the view that their choice of the product was primarily affected by the market conditions particularly the consideration related to the expanding market for their product as well as the availability of raw material in the local market. The infrastructure and the state government incentives as being factors affecting choice of product were reported by around 26 and 23 per cent entrepreneurs respectively.

Coming to units which had not availed any incentives the responses were obviously restricted to the first two



categories only and even in their case market conditions were overwhelmingly the main criterion in decisions related to the choice of the product since nearly three-fourths of the entrepreneurs listed expanding market, availability of raw material and availability of easy finance as the decisive factor. As far as the infrastructure was concerned, the availability of developed land and constructed sheds was the single most important factor.

Taking the two categories of entrepreneurs together, market conditions obviously feature as the most important factor in the choice of product as two-thirds of the total respondents have listed this factor as being important. Infrastructure as an important consideration is listed by around one-fourth of the respondents. The state government facilities had a relatively poor response since the proportion of units availing subsidies is rather low.

### III. CHOICE OF LOCATION

Most entrepreneurs attributed the choice of their location to the availability of raw material locally and demand of their product in the local market. These two factors were reported as important by 74 and 67 per cent of the entrepreneurs in the sample. 40 per cent preferred the location for personal reasons also. Incentives were found influencing location the case of 11 per cent cases in the total sample (Table 12). The pattern of resources is not significantly different between those availing incentives and those without incentives, except that among the former, over one-half also found incentives as influencing the decision on location of the unit. But even in their case availability of raw material and local market was mentioned as influencing factors by around three-fourths of the entrepreneurs and personal factors by about 44 per cent.

It thus seems that incentives and subsidies play a role, but only secondary to the basic conditions like raw material and the market. In fact, infrastructure items like industrial estate and agglomeration factors like the proximity to commercial and industrial centres, seems more

important than fiscal and financial incentives. About 18 per cent of the respondents mentioned each of these two factors as contributing to their decision on location.

#### IV. OPINIONS ON THE CONDITIONS AND PROCEDURES

The government has stipulated time period within which the application forms submitted for the availment of the various schemes of subsidies and incentives will be duly examined and the final decision taken as to whether the unit in question qualifies for availment or not. For instance, it is laid down that the Central Capital Subsidy will be cleared in ~~two~~ months, octroi exemption will be given within 15 days, interest free sales tax loan should be made available within one month, and the generating set subsidy is to be cleared within 4 months. The entrepreneurs were, therefore, asked to give their experiences as to whether the agencies adhere to the time schedules or not and to list the problems which they faced while availing or in trying to avail any type of subsidy or incentive and also to register their impressions in favour of or against the existing system of multiple incentives as well as multiple institutions. An account of the respondents' problems and suggestions is given in the next section.

One section of the questionnaire has also drawn the attention of the entrepreneurs towards the incentives related to sales tax alone and three schemes are related to it.

- i) Sales tax exemption ranging between 5-7 years depending on the category of the district;
- ii) The sales tax refund loan scheme; and
- iii) The lower rates of sales tax charged on raw material purchase.

In the case of sales tax exemption most of the units which had taken any subsidy or incentive felt that while the scheme is useful there is a need to extend the period of exemption (Table 13). The general opinion was that exemption should be granted for ten years. Even those who had not availed any subsidy were in favour of extending the period to ten years. However, a group of entrepreneurs who had not availed of any incentive felt that this scheme was basically defective in the sense that the older established units were being put to a considerable disadvantage since they were selling their products at a price which included sales tax whereas the new units could afford to sell at a lower rate as they were exempted from sales tax.

In the case of the sales tax refund loan the entrepreneurs generally expressed their resentment against the lengthy procedure involved and the resulting wastage of time before the facility could be availed. They have, therefore, suggested that the procedure should be simplified suitably such that the interest free loan is made available within the specified time of one month as claimed by the government in their printed handouts where details of the various schemes are given.

Even with respect to the lower sales tax on purchase of raw materials the general opinion was that the government should grant full exemption from sales tax. They also felt that the procedure with respect to raw material purchase from outside the state should be made easy and at the same time asked for lower rates as in the case of the raw material purchased within the state.

In general, however, the degree of response was rather poor with respect to these schemes since almost 50 per cent of the total respondents did not express their views in this connection.

An effort was also made at trying to explore the possibility of replacing the interest free sales tax loan scheme with a direct interest subsidy. Here also over half the respondents were not able to express a definite opinion one way or the other. However, around 38 per cent did express their views in favour of such a change.

#### V. PROBLEMS IN AVAILING INCENTIVES

So far as problems faced in availing the various subsidies or incentives are concerned, those units who had not availed of them did not have any opinion since most of them had no experience regarding the procedure or the working conditions in the concerning agencies. Out of a total of 170 such respondents as many as 134 (78.82 per cent) reported as never having tried to avail of any incentive and so gave no opinion (Table 14). This left only 36 (21.18 per cent) non-availing units which did make an effort at availment but failed in their attempt for one reason or the other. Three main problems and short-comings were mainly pointed out for this failure. There are lengthy and cumbersome procedure (71.78 per cent of the 36 respondents), undue wastage of time despite the claims that each incentive will be cleared within



a specified time (80.55 per cent of the 36 respondents) and lack of proper knowledge about the subsidies and the correct method of availment (63.89 per cent of the 36 respondents).

In the case of units availing subsidy or incentives 19 (44.19 per cent) reported as having had no serious problem in obtaining the specific subsidy that they had tried to avail. Some, however, did face difficulties and these relate to the lengthy and difficult procedure involved coupled with red tapism in the government or semi-government offices. The percentage of respondents with such problems was around 51 per cent. The second difficulty was that of the undue time lag which invariably has to be coped with before a unit was successful in availing any subsidy (41.86 per cent respondents).

Keeping in view these problems it is therefore suggested that the government should take adequate measures such that the procedure becomes simpler than what it is at present and to strictly adhere to the specified time periods already determined and within which the concerning agency is expected to clear the applications for the request of the subsidies or incentive. The entrepreneurs of new units have

to devote a lot of time on their units particularly at the time of installation and when the production process has just been initiated. And so if he has to run around from one office to another to get clearance for the incentive, work at the unit tends to suffer considerably. Moreover, only when there is timely disbursement of the subsidy or incentive can the unit take its maximum advantage.

#### VI. REPLACEMENT OF PRESENT SCHEME WITH A SINGLE INCENTIVE

The entrepreneurs were also asked to give their opinion with respect to replacement of the subsidies and incentives with a financial incentive such as concessional finance or an interest subsidy of an adequate nature (Table 15). Among the entrepreneurs who had availed of some subsidy or incentives around 56 per cent were in favour of the on-going schemes and so desired no change. Approximately 37 per cent of them felt that a scheme of concessional finance or an interest subsidy of a like amount would be preferable as compared to the subsidies and incentives. The remaining 7 per cent had no firm views in this connection.

Among those who had not availed any incentive or subsidy a very high percentage (73.53 per cent) had no firm view since they had never given the matter a serious thought primarily because they had not felt the need to take benefit under any of these schemes. However, around 20 per cent did feel that the alternative scheme of concessional finance or interest subsidy would be preferable. Only less than 6 per cent supported the continuation of the schemes presently under execution

The entrepreneurs were also asked to give their impressions about the multiplicity of the schemes in existence and the presence of the multiple institutions through which they are being made available. Since these schemes are basically designed to mitigate the disadvantage of cost as a result of initial trouble or an unfavourable location of a new unit one could also conceive of a single incentive based on a measure of cost disadvantage standardised according to different products separately and for different areas for a specified period. Here it was observed that by and large a relatively higher percentage of entrepreneurs preferred a single instead of multiple schemes of incentives.

Among the units having availed of any incentive slightly over 50 per cent expressed their preference for the single incentive. While around 40 per cent were in favour of the multiple scheme system. The remaining respondents did not have any firm opinion. The percentage of entrepreneurs favouring multiple schemes was highest in Muzaffarnagar where 75 per cent of the entrepreneurs were in favour of the on-going schemes. The entrepreneurs of Muzaffarnagar had also supported the present schemes of subsidies and incentives instead of the proposed scheme of concessional finance or interest subsidy. With 11 out of the 12 entrepreneurs wanting the schemes to be continued without any change.

In the case of units which had not availed any subsidy or incentive around 62 per cent failed to give a positive response for or against the multiple scheme system under operation. However, around 29 per cent did feel that a single scheme properly thought out and executed more efficiently would be better. The entrepreneurs have obviously given their preference for a single incentive instead of the present schemes as a result of their fruitless efforts at trying to avail some subsidy or

incentive. In the course of their futile efforts they had to keep running around leading to wastage of time, energy and the already scarce finance.

To sum up, therefore, it may be pointed out that the existing schemes have been found useful, even though only by a minority of new entrepreneurs, mainly in terms of easy availability of certain amount of liquid capital in the initial period. Multiple schemes each giving small benefit, multiple agencies to deal with different and sometimes a single incentive, and undue delays in disposal of application and dispensation of incentives have prevented a large number of entrepreneurs from availing these incentives. Sometime lack of knowledge about incentives and procedures of availing them have also contributed to the low degree of availment. In some cases, like the sales tax exemption, there seems to be a problem of discrimination between the old and the new unit without much justification.

## CHAPTER V

### CONCLUSIONS AND SUGGESTIONS

#### 1. I. RATIONALE OF SUBSIDIES

Subsidisation of industrial development in a newly industrialising economy is found necessary to mitigate the disadvantages that industries face due to their 'infant' stage and also in the relatively high cost locations. These disadvantages may arise due to incapacity of entrepreneurs to sustain the relative lack of return on their capital in the initial period of gestation, distance from the raw material source and the market, and inadequate infrastructure and services. Some of these, like the problems of initial high costs of production, could be compensated



by fiscal and financial incentives. Disadvantages of location could also be off-set for some time in the hope that with industrial development, location will become as advantageous as others. It is not certain if the deficiency of infrastructure could be compensated by provision of incentives. Yet the objective of diversification of industries in the backward areas which are also deficient in infrastructure also implies subsidisation on this account as well.

In order to be effective in the initiation and growth of industries incentive schemes should, in the first instance, provide for subsidisation of input or service which the units find it difficult to acquire at the cost they can afford, and secondly, the amount of subsidy is adequate to compensate for the cost disadvantage either in relation to competitors or in achieving the break even with reasonable margin of profit. Since subsidisation has to be a short-term phenomenon and has to cease after a period, one may argue that the extent of subsidisation should meet basically the difference between the current variable cost and average revenue which includes normal profit.

The implications that follow from the above approach are: First, the deficiency that a unit faces needs to be identified and the incentive devised to meet that particular deficiency to the extent it leads to a disadvantageously high cost of production. For example, if units in a location face the problem of non-availability of raw material locally, or of distance to the market, the differential transport cost needs to be met through the subsidy if industry is to develop in that location. If a new unit is unable to compete in the market due to the existence of old producers, an incentive like price preference, and quota in government purchase or subsidisation of marketing cost could be resorted to. If a new unit needs to invest large amount of capital which may yield result only after a few years, while the interest burden has to be borne thus raising the cost, subsidisation of the price of capital, viz., interest may be the suitable strategy. Secondly, the subsidy should adequately compensate the disadvantage. For example, in the illustration given above the difference in transport cost, marketing cost and interest rate difference between the actual and what can be borne by the unit should be fully met by incentives.

Thirdly, subsidisation to meet current costs only is justifiable and that too for a limited period of time. Subsidisation of fixed costs reduces the stake of the entrepreneur and if the unit is not able to break even on current operations and start paying for its fixed investment even after a substantial period of time, it would seem that the choice of the product, technology and location has been inherently incorrect and subsidising such ventures on a perennial basis would not only be inefficient but would also not serve the objective of industrial development.

The central and the state governments in India have, however, found it necessary to subsidise the cost of acquiring fixed capital in the form of capital subsidy. It seems that subsidising only the current cost advantage is not enough in a situation where entrepreneurship is not well developed and risk taking capacity of the entrepreneurs is rather low, and that a certain amount of liquidity needs to be made available free of cost to the entrepreneurs at the time of the establishment of the unit. The need to make free liquidity available to entrepreneurs, seems to have also warranted the introduction of sales tax interest free loan, sales tax deferment, and sales tax exemption schemes by the state government. Sales

tax exemption, no doubt, also gives advantage to the new units over the old ones in terms of market price. To the extent, it subsidises the high cost due to myriad reasons, it is a general purpose subsidy so as to enable the entrepreneur to earn the similar profit margin as the old units. But since it is not related with the cost differences, one does not know whether the incentive is offsetting the disadvantages of the new units inadequately or excessively. The general approach implicit in these subsidies, therefore, is that of making free liquidity available to the new units to allow them the leverage and flexibility in meeting the cost disadvantage they might face due to any reason.

## II. NATURE OF EXISTING SUBSIDIES

In Uttar Pradesh, the package of incentives available to industries are based on both the approaches: specific deficiency approach and general subsidy approach. There has been a general emphasis on "attracting" industries to the state on the basis of these incentives. Since most of the incentives offered by the state government are also offered by other states, it is quite difficult to ascertain whether they are performing the function of "attracting" industries into the state to any significant extent. In any case, as we have seen

in the earlier chapter, the location decision seem to have been only marginally influenced by incentives. There is no doubt, however, that the incentives have otherwise played some role in the promotion of industries in the state particularly by encouraging new entrepreneurs and new industrial units. No doubt a large number of industries have come up on their own due to improvement in the infrastructure and market conditions. But an increase in small scale industries, for example, by over 300 per cent, during 1975-1985 (from around 26000 in 1975 to over a lakh in 1985), has been rather unprecedented and at least part of this increase can be attributed to the promotional efforts and incentives offered by the government.

Yet it seems that incentives themselves have played only a marginal role. Around 80 per cent of the new units came up without availing any incentives, and even of those availing incentives 89 per cent, according to their entrepreneurs, could have come up without any incentives. For the seemingly low utilisation of incentives, there could be several reasons: one, the entrepreneur's may not be aware of the provision of incentives. This seems to be the reason with only about 14 per cent units not availing incentives. Second, the procedures may be cumbersome and entrepreneurs do not find the benefits worth the trouble. About 17 per cent of those not availing and also



over 50 per cent of those availing found the procedure cumbersome, but about 28 per cent of those availing found the procedure cumbersome, but about 28 per cent of those not availing considered it a waste of time and money to pursue the incentives. Yet the majority of non-availing entrepreneurs were indifferent and had no particular opinion on the question of incentives. If despite available information, over 60 per cent units did not attempt availment of incentives. It may, therefore, be surmised that probably the nature and extent of incentives offered is not suitable and adequate. Let us, therefore, look at each of the major incentives offered by the state government and see what deficiency or disadvantage it tries to offset and to what extent it succeed in doing so.

### III. MAJOR STATE SUBSIDIES : THEIR WORKING AND LIMITATIONS

#### i) Capital Subsidy

Capital subsidy compensates for lack of liquidity with the entrepreneur to buy equipment and machinery. It has been provided by central government and state government both till recently and now the central government



has made it applicable to all the districts at varying rates according to category of districts by their levels of development. Among those having availed any incentive about 21 per cent have been receipt of this subsidy, mostly from the state government. As a result the average value of machinery and equipment is found to be significantly higher among those having availed incentives than among units without having availed any incentive. The incentives has thus been relatively popular and useful. It may be hoped that it would be availed of by larger number of units now that there is only one singly administered scheme, i.e., of the central government to provide the capital subsidy.

ii) Generating Set Subsidy

Popularity of the generating set subsidy seems to arise primarily due to the need for a unit to ensure regular power supply for production in view of the frequent interruptions in the electric supply by Electricity Board. In principle the State should subsidise the difference between the cost of generating power internally and the rate of power supply supplied by the Board, for the period of scheduled production

during which the Board is not able to supply the power. Or then, interest on the capital to purchase the generating set could be suitably subsidised. The present scheme, however, has relative advantage of administrative simplicity. Yet a large number of units have not availed of it. There also seems to be a regional concentration in availment.

In our study we found that in Moradabad about one-third of the units availed this subsidy while in the other five districts in the sample, only around 10 per cent or less of the units availed it. May be this difference has something to do with the difference in condition of power availability in different areas. Or then, the nature of industry and its location may be relevant, as it is seen, the generating set subsidy has been most popular subsidy among sugar/khandsari units, electroplating units, and paper and paper products. It, therefore, seems desirable to make differentiation in the rate of subsidy by the nature of industry in terms of essentiality of uninterrupted power supply and location in terms of conditions of power supply in the area.

iii) Incentives Relating to Sales Tax

Incentives relating to sales tax are expected to serve two purposes : one, increasing the competitiveness of the unit in the market by being able to sell at prevailing price without loss or, two, making certain amount of liquidity available to the unit free of interest. Sales tax exemption and concession emphasises the earlier objective although it also serves the latter one. Sales tax refund interest free loan and sales tax deferment schemes emphasise the latter objective though they could also serve the former one. Interest free sales tax refund loan has been availed by a few units in our sample. It has now been replaced by sales tax deferment or exemption schemes. Those who availed of the refund loan earlier seem to have had a sizeable liquidity advantage. Sales tax exemption scheme was introduced late in 1982 and we have only a few units which have availed of it by the end of 1982. But most entrepreneurs considered the scheme good though many of them wanted the period of exemption extended. Those who found it defective suggested that it would be made applicable to old units also. It has also been noticed that in view of its non-applicability to the old units, certain surreptitious

ways are devised by some unscrupulous entrepreneurs to show the production of old units as that of a new one and claim the exemption. Most entrepreneurs would like that the concessional rate of sales tax on raw material is made more liberal by further increasing the rate of concession.

Thus the prevalent scheme of incentives relating to sales tax are found useful by the entrepreneurs in so far as it enables them to compete in the market, but more particularly as it makes a sizeable amount of liquidity available to the unit for its operations, at no cost. In terms of basic principles of subsidy, there, however, does not seem any justification for extending the period of exemption beyond what the present scheme provides. Further concessions on raw material, even complete exemption from sales tax on final product will not be warranted in the case, some other form of subsidisation should be evolved to assist units in terms of availability of liquidity, in that situation. So far as the problem of old and new units for exemption of sales tax is concerned in the alternative scheme where raw materials are exempted from sales tax and no exemption is granted in the final product, it would disappear as the exemption would be available to all

units. But in the present scheme the exemption should strictly be made available to the "new capacity", whether by an old or new unit, in terms of fresh investment in plant and machinery and the exemption should be restricted at the most to the value of the new investment. This would check the tendency on the part of some entrepreneurs to show the output of the old unit in the new one and claim exemption. The emphasis of the scheme should be in the creation of 'new productive capacity' and 'not new units'.

Most of the other incentives seem to be rather minor in importance. The amounts of subsidy in each case is generally small and the number of units availing them are not found to be many. Some of them like subsidy for feasibility study are meant to meet a specific need in initiating the project and, in spite of small amounts and limited availment, are found to be useful.

iv) Towards a More Regional and Single Subsidy

It is interesting to note that whatever the basic objective of the different incentives, most entrepreneurs who have used them have found them useful in two ways : in making liquidity available at low or no cost and in lowering the fixed cost. It

is also evident from the pattern of utilisation of different schemes : those which make funds directly available and are substantial in nature, like capital subsidy and sales tax incentives have been availed more often than other minor scheme. Even the generating set subsidy is, in fact, a cash subsidy which makes the units' liquidity position easier, although it helps in making a crucial input available. Not many entrepreneurs see the incentives as a direct measure for reducing current costs and thus competing in the market. It is basically the capital funds and risk taking capacity, the lack of which is seen to be offset by subsidies.

The low extent of utilisation of incentive schemes may, therefore, primarily be attributed, first to the nature of certain incentives which help, but in ways other than reducing the capital costs, and second, to the rather limited amount that one gets by way of funds after approaching a number of agencies and wasting lot of time. A single incentive from a single source, with a substantial amount of benefit in the form of direct or indirect funds would probably attract and induce a larger number of entrepreneurs than multiple incentives administered by several agencies each providing a small amount of specific help. It is seen that



the units with relatively smaller capital investments have more often gone in for incentives, than those with larger investment, because the subsidy has meant a substantial proportion of their fixed and total capital. But very small units have availed the incentives to an insignificant extent because they could not afford to invest funds and time to avail them primarily because of multiplicity of benefits and agencies.

Thus there seems to be a case for a general subsidy in place of various specific schemes, which augments the financial resources of new entrepreneurs in the initial stages of their production. During this period the main disadvantage faced is that of high fixed cost per unit due to non-utilisation of capacity created out of substantial investment. This cost is basically in the form of interest on investment that takes time in yielding results. The general incentive could, therefore, take the form of interest subsidy on fixed capital investment. The entrepreneurs could be encouraged to invest their own funds supplemented by institutional finance, and interest on total investment could be subsidised to a suitable extent. This subsidy

could be available to units for any dose of investment that they make on expansion of their productive capacity any time.

This kind of a single generalised subsidy, should be administratively simpler to the extent only one subsidy on the basis of the assessment of the value of new investment is to be made. It should be convenient to the entrepreneurs to the extent they have to meet the condition for one incentive only and deal with a single agency. Of the entrepreneurs in our sample, who have given some thought and opinion on the issue, a significant majority have favoured a single and a financial incentive scheme as against multiple, fiscal and financial subsidies.

It would be argued that the generalised incentive could be in the form of a fiscal incentive like sales tax exemption, rather than a financial one. There are two problems with the fiscal incentive like tax exemption. One, it does not ensure creation of new capacity for production which should be the basic aim of any incentive for industrial production;

and, two, it leaves the matter of follow up to chance. A financial subsidy on fixed capital, by way of interest compensation, ensures creation of new capacity as it is consequent upon investment and its follow up is in the interest of the beneficiaries themselves.

It is desirable that the scheme of incentives of industrial development are rationalised on the above lines, if they are to be made more popular with the entrepreneurs and more effective in their objectives of industrial development. The least that can be done, till such a generalised scheme is evolved is to reduce the number of incentives to a few of them which provide what the entrepreneurs are looking for to a more substantial extent.

Table 1.

DISTRICTWISE DETAILS OF UNITS AND TYPE OF OWNERSHIP AND THE AGE, EDUCATION  
AND JOB EXPERIENCE OF ENTREPRENEURS.

DISTRICT	No. of Units.	Ownership of Units.			Avg. Age of the Entrepre- neurs	Entrepreneur's Education			Entrepreneurs Job Experience.		
		Inherited	Purchased	Started		Upto Inter	Graduate & Above	Technical Qualifi- cation	Same Occ- upation	Different Occupati- on.	
Bareilly	30	3	6	21	40.83	10	17	3	10	15	
Bulandshahr	25	2	21	2	37.96	18	7	-	2	9	
Dehra Dun	25	1	1	23	44.04	16	9	-	4	5	
Moradabad	48	10	5	33	44.12	24	23	1	10	9	
Muzaffarnagar	38	2	3	33	44.55	15	20	3	5	10	
Saharanpur	47	1	4	42	39.51	16	28	3	1	-	
T O T A L	213	19	40	154	41.95	89	114	10	32	48	

Table 2.  
CLASSIFICATION OF UNITS BY THE SIZE OF PRODUCTION

Type of Unit.	Value of Production 1980										Value of Production 1984					AVG. Value of production in 1984 adjusted on the basis of wholesale price Index.	% change + or - in 1984 against 1980
	Below Rs. 1 Lakh.	1 - 3 Lakhs	3 - 5 Lakhs	5 - 10 Lakhs	10+ Lakhs	No. Inform-ation.	Total Unit	Avg. Value of production in Rs. Lakhs	Below Rs. 1 Lakh	1 - 3 Lakhs	3 - 5 Lakhs	5 - 10 Lakhs	10+ Lakhs	No Informa-tion.	Total Units	Avg. Value of production (Rs. Lakhs)	
Units avail- ing Subsidy	3	2	-	2	29	7	43	22.86	1	2	1	2	35	2	43	53.89	+62.20
Units not availing any Subsidy	14	31	23	19	43	40	170	13.89	10	27	18	36	76	3	170	17.89	-11.40
T O T A L	17	33	23	21	72	47	213	15.89	11	29	19	38	111	5	213	25.02	+ 8.33

Table 3

## CLASSIFICATION OF UNITS BY SIZE OF FIXED CAPITAL

Type of Unit	Size Group of Fixed Cap. 1980										Size group of Fixed Cap. 1984						Increase in the value of Fixed capital between 1980 & 1984
	Below 0.25Lakh	0.25 - 0.50	0.50 - 1.00	1 - 2	2 +	No info-	Total Units	Average Value of Fixed Capital (Rs. Lakhs)	Below 0.25Lakh	0.25 - 0.50	0.50 - 1.00	1 - 2	2 +	No info-	Total Units	Average Value of Fixed Capital (Rs. Lakhs)	
Units avail- ing Subsidy	-	1	6	2	27	7	43	5.76	-	2	3	2	34	2	43	7.85	36.28%
Units not availing Subsidy	12	15	14	27	62	40	170	3.67	9	20	13	31	92	5*	170	4.69	27.77%
TOTAL	12	16	20	29	89	47	213	4.13	9	22	16	33	126	7	213	5.29	28.04%

\*Two Units were doing only job work and had no fixed capital.



Table 4  
DETAILS OF SUBSIDY BY SIZE OF FIXED CAPITAL

Size of Fixed Cap.	No. of Units	Type of Subsidy						Average Value of Subsidy (Rs.)
		Generat- ing Set Subsidy	State Capital Subsidy	Interest Free Loan	S. Tax Exempti- on	Central Subsidy	Subsidy on Fea- sibility Report	Others
Below Rs. 50,000	2	-	1	-	1	-	-	28,460
Rs. 0.50 - 1.00 Lakhs	4	2	-	-	1	-	-	11,012
Rs. 1 - 2 Lakhs	2	-	1	-	-	-	1	13,500
Rs. 2 - 5 Lakhs	11	7	-	1	2	1	-	1,89,737
Rs. 5 - 7 Lakhs	6	3	1	3	-	-	-	1,15,745
Above Rs. 7 Lakhs	17	14	3	2	-	1	-	1,52,977
Insufficient in- formation about fixed capital	1	-	1	1	-	-	-	66,000
TOTAL	43	26	7	7	4	2	1	1,29,678

Table 5

## DISTRIBUTION OF UNITS BY SIZE OF EMPLOYMENT

Type of Unit	Size of Employment 1980										Size of Employment 1984							% change in 1984 over 1980 in abso- lute em- ployment	
	Below 10	10 - 15	15 - 25	25 - 50	50 - 100	100 +	No infor- mation	Total Units	Avg. Emp- loyment per unit	Below 10	10 - 15	15 - 25	25 - 50	50 - 100	100 +	No infor- mation	Total Units		Avg. Em- ployment per Unit
Units avail- ing Subsidy	8	1	10	8	2	7	7	43	52	5	1	10	13	3	9	2	43	63	+ 33.46
Units not availing subsidy	26	31	19	31	14	9	40	170	33	30	29	28	36	26	18	3	170	23	- 10.66
TOTAL	34	32	29	39	16	16	47	213	37	35	30	38	49	29	27	5	213	31	+ 2.93

Table 6

CLASSIFICATION OF UNITS TAKING SUBSIDY BY PRODUCT GROUP AND TYPE OF SUBSIDY/INCENTIVE AVAILABLE

Type of Product	No. of Units in the Sample	Units taking Subsidy	Avg. Value (Rupees Lakhs, of only Units availing Subsidy.				Generating Subsidy	Type of Subsidy						Avg. Value of Subsidy (Rs.)	Units taking Subsidy as a % of total Units of that Group
			Avg. Value of Production	Avg. Value of Fixed Capital	Avg. Value of Working Capital	Avg. Size of Employment (Nos)		State Capital Subsidy	Interest Free S. Tax	S. Tax Exemption	Central Subsidy	Subsidy on Feasibility Report	Any other		
Rice Mill	20	1	32.30	2.68	14.74	10	1	-	-	-	-	-	-	34,000	5.00
Sugar/Khandsari	58	14	29.75	12.23	24.38	135	11	5	-	-	-	-	-	87,405	24.14
Cold Drinks	4	2	6.19	7.79	3.27	13	1	-	2	-	-	-	-	1,18,144	50.00
Crockery	3	1	1.96	0.94	2.04	8	-	-	-	-	-	-	1	10,000	33.33
Brassware	10	4	38.68	5.22	26.88	29	2	-	-	1	2	-	-	4,36,085	40.00
Electroplating	2	2	40.16	3.91	41.33	36	2	-	-	1	-	-	-	46,900	100.00
Chemicals	9	5	26.47	8.36	20.36	31	2	-	1	1	-	-	1	1,30,453	55.55
Coal Briquettes	4	2	6.34	2.73	2.20	18	1	-	-	-	-	1	-	22,500	50.00
Paper & Paper Products	6	4	275.18	9.95	73.72	34	4	-	-	-	-	-	-	1,30,375	66.67
Engineering Units	20	4	7.88	3.15	3.96	20	-	2	2	1	-	-	1	72,543	20.00
Electrical/Electronic	16	2	18.15	2.89	10.26	18	2	-	-	-	-	-	-	9,000	12.50
Rubber & Rubber Products	12	2	41.30	3.79	35.91	23	-	-	2	-	-	-	-	1,94,258	16.67
Total Units	164	43	53.89	7.85	25.72	63	26	7	7	4	2	1	3	1,29,678	

Table 7

## DETAILS OF AVAILMENT OF SUBSIDY/INCENTIVES

District	No. of units	Units taking Subsidy	Not taking Subsidy	Name of Subsidy/Incentive								Avg. Subsidy per unit (only those units taking Subsidy)	Institution providing Subsidy/						
				Interest free S.T. Loan	State Cap. Subsidy	Subsidy for Feasibility Report	Generating set Subsidy	Exemption from S.T.	Other	Any Central Govt. Subsidy.	D I C		UPFC	PICUP	ST Deptt	SS Ind. Deptt.	KVIC	Central Govt.	
Bareilly	30	-	30	1	1	1	1	1	1	1	21500	-	1	4	1	1	1	1	1
Bulandshahr	25	4	21	1	1	1	2	1	1	1	9000	-	1	-	1	1	1	1	1
Dehra Dun	25	2	23	1	1	-	2	-	1	1	152535	-	-	1	2	1	1	1	2
Moradabad	48	21	27	1	6	-	15	2	1	2	147950	-	-	7	14	1	2	1	1
Muzaffarnagar	38	12	26	5	-	-	4	2	2	1	123375	-	-	-	5	6	1	-	1
Saharanpur	47	4	43	1	1	-	3	1	1	1	-	-	-	4	-	1	-	-	-
Total	213	43	170	7	7	1	26	4	3	2	129678	-	15	21	8	3	1	1	2

Table 8

## DETAILS OF SUBSIDY BY SIZE OF FIXED CAPITAL

Details	Size Group of Fixed Capital: Rupees Lakhs			
	Below 5	5 - 10	10+	Total
Number of Units	20	8	8	36
Avg. Size of fixed capital per unit	2.30 Lakhs	7.22 Lakhs	18.47 Lakhs	6.98 Lakhs
Avg. Subsidy per unit	1.15 Lakhs	1.62 Lakhs	1.34 Lakhs	1.30 Lakhs
Subsidy as a percentage to Fixed Capital	50.12	22.38	7.27	18.55

Table 9

## DETAILS OF SUBSIDY BY SIZE OF PRODUCTIVE CAPITAL

Details	Size Group of Productive Capital (Rs. Lakhs)				
	Below 5	5-10	10-15	15 +	Total
Number of Units	9	3	4	19	35
Avg. Value of productive Ca- pital per unit	3.23 Lakhs	9.37 Lakhs	11.82 Lakhs	50.17 Lakhs	30.24 Lakhs
Avg. Subsidy per unit	2.02 Lakhs	0.82 Lakhs	0.25 Lakhs	1.25 Lakhs	1.30 Lakhs
Subsidy as a percentage to productive ca- pital	62.61	8.80	2.13	2.49	4.29

P.S.: The units are only 35 since one unit failed to provide all data related to productive capital.



Table 10

## CHANGES IN PRODUCTIVE CAPITAL

Type of Unit	Total Units	Avg. Value of Productive Capital per unit.		% increase in 1984 over 1980
		1980	1984	
Units availing Subsidy	43	20.87	33.57	60.88
Units not availing Subsidy	170	13.44	17.01	26.57
T O T A L	213	15.09	20.34	34.77

Table 11

## ENTREPRENEUR'S ASSESSMENT REGARDING CHOICE OF THE UNIT

Type of Unit	Market Conditions			Infrastructure Facilities				State Government Incentives					
	Expanding Market	Availability of Raw Material	Easy Finance	Land / shed	Rail / Road Connection	Power Availability	Any other	Generating Set Subsidy	S. Tax Refund	S. Tax Exemption	Subsidy for machinery	Capital Subsidy	Electricity Rebate
Units taking Subsidy	35	27	14	11	18	3	6	14	9	3	2	4	1
Units not taking Subsidy	125	129	48	44	34	14	23	--	-	-	-	-	-
TOTAL	160	156	62	55	52	17	29	14	9	3	2	4	1



Table 12

## ENTREPRENEURS' ASSESSMENT REGARDING CHOICE OF LOCATION OF THE UNIT

Type of Unit	Availability of Raw Material	Ind/ Estates	Conce- ssional Finance	Local Market	Nearness to Comm- ercial / Industr- ial Centre	State Govt. Incent- tives	Central Govt. Incent- tives	Personal Reasons	Any Other
Unit taking any Subsidy/ Incentive. (Total Units 43)	31 (72.09)	10	6	30 (69.77)	6	23 (53.49)	1	19 (44.19)	1
Units not taking Subsi- dy/Incentive. (Total Units 170)	127 (74.71)	29	6	112 (65.88)	33	-	-	64 (37.65)	7
TOTAL (213 Units)	158 (74.17)	39	12	142 (66.67)	39	23	1	83 (39.67)	8